

Governor's Transaction Privilege Tax Simplification Task Force

Contracting Working Group Update

August 28, 2012

Craig McPike, Working Group Chair

Contracting Working Group

- Focus is on the Arizona state and local tax scheme for business activity of contractors
- Four general categories of contractors
 - Civil: large industrial; e.g., road construction
 - Commercial: e.g., office building construction
 - Residential: homebuilders
 - Service: e.g., plumbing repair, landscaping, HVAC repair, painters

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- First meeting on Tuesday, August 21
- Presentations
 - Christy Comanita / ADOR: Current state law
 - Lee Grafstrom / League of Cities & Towns: Current model city tax code and differences between state/city codes
 - Barb Dickerson: History of tax law for contractors
 - Elaine Smith / ADOR: Revenue sharing – current status and historical context



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Key Issues

- Most tax controversy in Arizona tax system
- Complexity of compliance, especially for smaller contractors
 - License requirement for each city
 - Multiple returns for any contractor operating in the Valley
 - Differences between state and city tax laws/interpretations
- Differences in interpretation of deduction provisions
 - TPs vs. State: e.g., deduction for installation of certain machinery that is not “permanently attached”
 - Cities vs. State: e.g., changing aerator on faucet
- Ease of “gaming” the system
- Cities have speculative builder tax – state does not



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Possible Alternative

- Materials-based tax, with retailers taxed on sale of materials
 - Existing structure: retail classification
 - Ease of “gaming” the system substantially reduced
 - Revenue-sharing issues need to be addressed due to complex, outdated revenue-sharing formula
 - Different sharing formula for contracting vs. retail
 - Use tax not currently part of revenue-sharing formula
 - Raises tax policy question of why use tax rate is different from TPT rate

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- Next meeting: September 18 – League of Arizona Cities and Towns
- Goals
 - Flush out core concerns of ADOR/Counties/Cities for potential materials-based tax
 - Flush out core concerns for industry if current system is maintained
- Anyone interested in giving input or presenting at meeting – contact me